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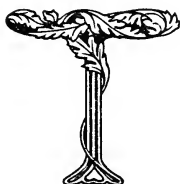
# Review of Proposed Banking and Currency Bill

By James B. Forgan

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# Review of Proposed Banking and Currency Bill\*

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\* S 2639 and H R 6454 introduced in the Senate and House of Representatives—June 26, 1913.

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THE  
AMERICAN  
ASSOCIATION

[The Federal Reserve Act, S. 2639 and H. R. 6454, simultaneously introduced in the Senate and the House of Representatives, June 26, 1913, reviewed by James B. Forgan.]

### Federal Reserve Districts

SECTION 2. Provides for the organization of "not less than twelve" Federal Reserve districts in which there shall be established twelve Federal Reserve Banks to which national banks are required to subscribe the capital to the extent of 20% of their own capital, one half to be paid in cash, the other half to be subject to call. The minimum capital of any Federal Reserve Bank to be \$5,000,000.

The Currency Commission of the American Bankers' Association in its answer to question number 13 of questions formulated by a sub-committee of the Banking and Currency Committee of the United States Senate placed itself on record as follows in regard to the number there should be of Federal Reserve Banks or Associations and I am heartily in accord with them:

"In our opinion one central reserve association with branches would best serve our present necessities. Failing that, a small number of regional reserve associations, also with branches, might be organized to serve the purpose. The smaller the number of regional reserve associations, however, the more effective the reserve control. If there are to be a number of regional reserve associations they should be under some kind of central control in which both the government and the various associations should have representation.

"Three objections to the regional reserve associations occur to us:

"First. They will divide the cash reserves of the country into as many different ownerships as there are regional associations. No individual bank can now strengthen its cash reserves without at the same time and to the same extent depleting the reserve of some other bank, so with the regional reserve associations, no one of them will be able to strengthen its cash reserves without drawing them from and reducing to the same extent the reserve of one of the other associations.

"Second. In connection with the shipping of reserve money from one section of the country to another. Under one central reserve association with branches this could be accomplished without change of ownership of the money shipped, as it would belong to the one association irrespective of what branch had

custody of it. In the case of independent regional reserve associations no such transfer of reserve money could be made from one region to another without a change in ownership. It would increase the reserve of the association that receives it and deplete by a similar amount the reserve of the association that ships it. In times of financial stress when each regional reserve association would be husbanding its resources for the benefit of its own constituents, this might produce an undesirable and awkward situation, the interests of the various sections of the country being at variance. Such effect will be intensified in direct ratio to the number of regional reserve associations, and

“Third. Under one ownership and control of the reserves transfers of funds could under normal conditions be accomplished by book entries rather than by the shipment of money.”

### Federal Reserve Banks

SECTION 3. Federal Reserve Banks may establish branches in their districts, the total number of such branches not to exceed one for each \$500,000 of their capital.

As it is quite practical that branches can be made to afford the banks in their immediate vicinities all the facilities that the Federal Reserve Banks can afford them, another good reason is here offered for keeping the Federal Reserve Banks down to the smallest number deemed politically practical or possible. From the standpoint of financial stability and strength there is not a doubt in my mind, that one Central Reserve Association with branches in which all the reserves of all the banks could be mobilized and controlled would best serve the purposes of all business interests in all sections of the country. Not a single valid reason from a business standpoint has been put forth in favor of their multiplication. Let us then have as few as possible and on page three, line four, of the bill after the word “not,” omit the word “less,” and substitute in lieu thereof, the word “more.” I venture to predict that within ten years, if twelve Federal Reserve Banks are now established Congress will be called upon by the business interests of the country to pass an act consolidating them into one. I believe time and experience will prove the truth of the adage “in unity there is strength.”

### Directors of Federal Reserve Banks

SECTION 4. Provides that the directors of the Federal Reserve Banks shall have powers similar to those of directors of national banks except as extended or limited by this act. They are to be of three classes.

Class A. Three to be elected by and to be the representatives of the

stockholding banks. Class B. Three to represent the general public interests of the district, to be also elected by the stockholding banks, but to be subject to removal by the Federal Reserve Board if it should appear that they or any of them do not fairly represent the commercial, agricultural or industrial interests of their district. Class C. Three to be chosen by the Federal Reserve Board, one of whom shall be designated by said board as chairman of the board of directors and as "Federal Reserve Agent." Said board shall also fix his annual compensation.

It must be assumed that the chairman of the board of directors as designated and appointed by the Federal Reserve Board will be the principal executive officer of the Federal Reserve Bank and as he is subject to removal by the Federal Reserve Board, without notice, he will be directly under the domination and control of that board. This, with the power to remove the three directors representing the public interests, places the management of the Federal Reserve Banks directly under the domination and control of the Federal Reserve Board, a politically appointed body.

### Division of Earnings

#### SECTION 7.

As the Act provides that after the payment of 5% dividends to shareholders a surplus of 20% shall be accumulated giving the stock a book value of \$120 at which price new banks coming in then will have to pay for it, the dividend should be increased to 6%, which when the book value and cost of the stock is \$120 would yield only 5% on the amount invested.

A further reason why the stock dividends should be more than 5% per annum is that in addition to supplying the Federal Reserve Banks with their capital aggregating \$105,000,000 they will also supply them with deposits aggregating \$410,000,000. These figures are based solely on what is compulsory on the national banks. If the state banks can be brought in the figures would at least be doubled. The profits of the Federal Reserve Banks will therefore be almost entirely made on the use of funds belonging to the stockholding banks and will at the same time be almost entirely obtained from these banks. The stockholding banks will get nothing on their deposits, by far the greater part of their contribution. It would therefore seem only fair and equitable that if the profits will warrant it they should receive more than 5% on their capital investment.

### Penalty for Non-compliance With Provisions of This Act

SECTION 8. Provides that national banks failing within one year to comply with the provisions of this Act shall be dissolved.

The bill should surely be made sufficiently attractive not only to induce existing national banks to take advantage of it without this "do or die" coercion, but to also induce existing state banks to come into the national system. The advantages now enjoyed by national banks as against those enjoyed by state banks are nebulous. There are in the country now more than two state banks for every national bank and in the states having good banking laws this ratio is much greater and constantly increasing. In Chicago, a central reserve city, under the national system, there are 69 state banks and only 18 national banks. If in the matter of reserves new burdens are to be placed on national banks through the country and if the privilege of acting as legal reserve agents is to be withdrawn from the banks in the reserve and central reserve cities while the note issuing privilege of all is to be gradually withdrawn the principal present advantages claimed for the national banks over state banks will be removed. The banks, both national and state, will have to weigh any compensating advantages offered by the national system, under this Act, against the existing advantages of operating under state laws. Hence, the necessity of providing a thoroughly practical law, the benefits of which will be such as to develop and not to destroy our national banking system.

### Federal Reserve Board

SECTION 11. This board is to consist of seven members. The Secretaries of the Treasury and of Agriculture and the Comptroller of the Currency are to be ex-officio members. The other four members, "one of whom shall be experienced in banking," are to be chosen by the President of the United States with consent of the Senate. The Secretary of the Treasury is to be chairman of the board. One of the other four members, presumably the one experienced in banking, is to be Governor and another is to be Vice-Governor. The Governor is to be the active managing officer under the supervision of the Secretary of the Treasury and is liable to removal for cause at any time by the President. All four members are to get \$10,000 a year for their services and the Comptroller is to get \$5,000 in addition to his present salary of \$5,000. No member can be a director of any bank, including Federal Reserve Banks, while he is a member of this board.

The President might find it difficult to secure the services of a banker of adequate ability and banking experience to fill the position of Governor. The salary and conditions connected with the office are not, it seems to me, such as to attract such a man unless he were willing to sacrifice a great deal for the honor of holding it. There seems no good business reason why

the Governor who is to be the active managing officer should not have higher compensation than the Vice-Governor and the other two directors, nor why the salary of the Vice-Governor should not be more than that of the other two directors. The ordinary business method should be followed of grading the official salaries somewhat in conformity with the experience and recognized ability of the incumbents of the different official positions as well as with the responsibilities placed upon them and with the duties they are required to perform.

But the most serious objection to the organization of the board lies in the method of selecting its members. That a board so appointed would be dominated and controlled by political expediency is obvious. The three ex-officio members of it would owe their positions to their political affiliations if not to their political activities. The other four positions on the board would be included among the party plums and distributed for party service as part of the spoils of the victorious party, just as similar government positions now are.

It has been claimed that the Federal Reserve Board would be organized somewhat along the lines of the Supreme Court of the United States and that it would be kept as free from political influence. I fail to see any analogy between the organization of the two bodies, nor can I admit that they would be equally free from political influence. The Justices of the Supreme Court are appointed for life. The Governor of the Federal Reserve Board is removable at any time by the President and the members are appointed for eight years at most, with nothing to prevent their removal at any time should the President request it. The Justices of the Supreme Court are selected with due regard to their professional eminence. The members of the Federal Reserve Board with one exception need not have either previous experience in, or knowledge of, the banking business, the destinies of which are to be placed in their hands. The duties and functions of the Supreme Court are deliberative in deciding controversies brought before it. The duties of the Federal Reserve Board are administrative with full power of initiative. The Supreme Court is approachable only in public—in open court—by counsel duly retained. The members of the Federal Reserve Board will be individually as accessible as the officers of any business corporation or as the heads of any other governmental department. The Supreme Court is guided by traditions and precedents dating back to times immemorial. The Federal Reserve Board will have few if any precedents

for its guidance and none that will be binding. By the very nature of its existence the Supreme Court is placed above and beyond political exigencies and influences. In authority it is superior to the government, both legislative and administrative. Not so the Federal Reserve Board, which will be nothing, more nor less, than a department of the administrative branch of the government charged with the direction and control of the banking destinies of the country divided into twelve districts. In the event of a district desiring some special consideration at the hands of the Federal Reserve Board—such for instance as requiring another district to re-discount for it—what more likely than that existing methods with other governmental departments should be followed and that the good offices of the Senators and Representatives in Congress of that particular district should be enlisted to see and to use their influence with the members of the board to secure from them the desired consideration.

Banking and politics are like oil and water, they do not mix. If the former is to be kept sound and good it must be kept separate from the latter. The principles underlying sound banking are diametrically opposed to those which rightly or wrongly seem to control politics. In their fiduciary capacity, bankers, if they want to succeed and be faithful to their trust, must be constantly on their guard against the influence of such virtues even as friendship and human sympathy and they must officially eschew the insidious influence of reciprocal personal favors. Such influences seem to be of the essence of politics and to control political activities.

It seems right and reasonable that if there are to be not less than twelve Federal Reserve Banks there should be a Federal Reserve Board to supervise and within reasonable limitations to regulate them. The government should be properly represented on the board as also should be the commercial, industrial and agricultural interests of the country. And the contributing banks through the Federal Reserve Banks which they own and which the Federal Reserve Board is to regulate and direct should also be properly represented on it. Surely the national banks without such representation could not be expected, let alone compelled, to supply \$105,000,000 capital and \$410,000,000 deposits to the Federal Reserve Banks. By such compulsion the rights of property would have to be entirely ignored and a practical confiscation of the possession and control of their own property to the extent of 40% of their paid in capital would

take place. The directors of banks in their fiduciary capacity are directly responsible to their shareholders as well as to their depositors for the funds they would thus be compelled to place beyond their own control. Could they do so and would they do so if they could find a way out of it?

### **Powers of the Federal Reserve Board**

**SECTION 12.** Defines the authority and the duties of the Federal Reserve Board.

The objectional feature here is the arbitrary power given the Federal Reserve Board to require a Federal Reserve Bank to rediscount the paper of any other Federal Reserve Bank. It is inconceivable that a condition could ever arise that would make the exercise of such arbitrary power necessary and it could only be exercised by absolutely ignoring and infringing upon the property rights of the parties. Has socialism so developed in this country that an administrative department of the government will be given the power to arbitrarily compel an incorporated bank in one part of the country, against the will of its directors, to part with its lawful money and receive in exchange therefor notes offered for rediscount? Are such business transactions no longer to be left to the option and discretion of the bank owning the money? Each Federal Reserve Bank will have eleven others to apply to and if it cannot for good and satisfactory business reasons obtain rediscounts voluntarily from any of them, then it should be wound up. If it has satisfactory collateral to offer there is not the slightest fear of its being able to get the accommodation it needs.

### **Rediscounts and Bank Acceptances**

**SECTION 13.** States the conditions under which the Federal Reserve Banks are to rediscount notes and bills for the member banks. It also grants the power to all member banks to accept to the extent of one-half of their paid-up capital drafts or bills of exchange drawn upon them at not exceeding six months' sight and growing out of transactions involving the importation or exportation of goods.

These constitute the two principal advantages to be granted by this Act to the national banks that continue in the national system and to such state banks as may elect to avail themselves of them. Their importance cannot be overstated. The lack of adequate facilities for converting liquid bank assets into available circulating or debt paying media when necessary is one of the principal defects of our present banking system.

Some ambiguities and inconsistencies appear in the conditions regulating rediscounts, as they are stated in the Act, but these

have already been brought to the attention of the chairmen of the two congressional committees having the Act in charge. They are non-essential and will doubtless be corrected. With a properly constituted Federal Reserve Board, competent to determine and define the character of such notes as are to be available for rediscount, the conditions imposed would probably work out satisfactorily.

Country banks as a rule balk at the forty-five day limit on the maturity of the ordinary rediscountable paper. It seems to me, however, that they misconstrue and are unnecessarily afraid of this condition. Every bank has in its portfolio notes maturing daily. Any day on which a bank requires a rediscount it has all the paper in its portfolio, that has been made "for agricultural, industrial, or commercial purposes," that matures within the next forty-five days available for that purpose. The loans may have been originally made for much longer periods, but there comes a time when they will mature within forty-five days. Loans to farmers are made for agricultural purposes as a rule and would, without doubt, be made available for rediscounting purposes. Of such loans in hand, made from day to day in the ordinary course of business for six months' periods, one-fourth would naturally mature within forty-five days, and for three months' periods one-half would similarly mature. On any given day a bank sending in for rediscount such of its available paper on hand as matures in say from ten to forty-five days would ten days later have the maturities of another ten days become available. In order that the assets of the reserve banks should be kept as liquid as possible it is certainly most desirable that rediscounts granted by them should be on short maturities. The country banks would have no difficulty in adjusting themselves to this condition by simply so regulating the maturities of their loans as to always have sufficient of them maturing within forty-five days and so made available for rediscounting purposes. By so doing they would materially strengthen their own condition even if they should not find rediscounts necessary.

In regard to the power to be given all member banks to accept time drafts drawn on them; all banks do not need this power and I think it is doubtful if they should all have it. It seems to me that only those having a specified strength from the standpoint of paid-in capital and whose acceptances would pass as prime bills in the money markets open for such paper should enjoy this privilege. Otherwise there might be about

as much difficulty in judging the quality of bank acceptances afloat in the market as there was in connection with the State bank note issues before the national banking system was inaugurated. The possibilities of an undue inflation of credit resulting from the use or misuse of such acceptances, should in my judgment, be guarded against by restricting the privilege to banks having a paid-in capital of not less than \$1,000,000.

### Note Issues

SECTION 17. This section states the conditions and regulations under which circulating notes, to be known as Federal Reserve Treasury notes, are to be issued by the Government to the Federal Reserve Banks and by them to be paid out and redeemed. Stated concisely these conditions and regulations are:

1. The issue is primarily limited to \$500,000,000.
2. The issue may be increased as national bank notes are retired at the maximum rate of 5% per annum of the amount of such notes outstanding at the time of the passage of this Act. All national bank notes outstanding are to be retired at the expiration of twenty years from the passage of this Act.
3. The notes shall purport on their face to be the obligations of the United States.
4. They shall be issued solely for the purpose of making advances to Federal Reserve Banks at the discretion of the Federal Reserve Board.
5. They shall be receivable for taxes, customs and other public dues.
6. They shall be redeemable in gold on demand at the Treasury Department in Washington or at any Federal Reserve Bank.
7. When redeemed by any such bank they may be charged by it against Treasury balances on its books or may be paid out of its lawful money reserves specifically held for their redemption.
8. Federal Reserve Banks must accompany their applications for them with a tender to the local Federal Reserve agent of notes and bills which they have rediscounted equal in amount to the sum of the notes applied for.
9. The Federal Reserve Board may at any time call upon the Federal Reserve Banks for additional deposits of security.
10. The Federal Reserve Banks shall hold segregated in their own vaults gold or lawful money equal to  $33\frac{1}{3}\%$  of the amount of Federal Reserve Treasury notes paid out or disbursed by them.
11. The Federal Reserve Board may require Federal Reserve Banks to maintain in the Treasury of the United States a 5% redemption fund against the Federal Reserve Treasury notes issued to them which shall be included as part of the  $33\frac{1}{3}\%$  reserve required.
12. When on the application of the Federal Reserve Banks notes are issued to them, the amount so issued shall be charged to them and they shall pay interest on said amount at such rate as the Federal Reserve Board may establish.

13. The amount of such notes so issued to any such bank shall upon delivery become a first lien on all its assets.
14. Any Federal Reserve Bank may at any time reduce its liability for outstanding notes by depositing Federal Reserve Treasury notes, whether issued to it or to some other such bank, other lawful money or gold bullion with the Federal Reserve agent or with the Treasurer of the United States.

While these Federal Reserve notes are to purport on their face to be the obligations of the United States, they are in fact to be primarily the obligations of the Federal Reserve Banks guaranteed by the government. The Federal Reserve Banks are primarily charged with their redemption. For these primary obligations of the Federal Reserve Banks the notes are made a first and paramount lien on all their assets, besides being collaterally secured by them by a specific pledge of commercial paper of equal amount, and by the segregation of gold or other lawful money equal to  $33\frac{1}{3}\%$  of the amount of them outstanding. They are also to be redeemable at the United States Treasury; but the funds for that purpose are to be supplied by the Federal Reserve Banks. Unless therefore the Federal Reserve Banks default in their obligation to redeem the notes the government will not be required to pay or redeem them with its own funds. It is a good principle in business that the real purport of an obligation should be unequivocally expressed in the contract. The plain, straightforward and businesslike way to express the contract contained in these notes is to make them the direct obligations of the banks that pay them out and that are primarily responsible for the redemption of them; and if the United States is to guarantee their final payment, let that obligation also appear on their face in the form of a guaranty.

There appears to be an inconsistency or ambiguity in connection with the interest to be charged the Federal Reserve Banks on the amount of notes delivered to them. These banks could not afford to pay interest on the notes until they actually have the use of them by paying them out. The intention must be to charge interest on the amount paid out and put into circulation.

It may be remarked that any interest charged by the government on the amount of notes issued to the Federal Reserve Banks must necessarily reduce by a like amount the net profits to be paid by these banks to the government. The government's object therefore in charging interest which it must pay itself is not quite obvious.

It seems unnecessary that the Federal Reserve Banks should be required to specifically pledge a part of their assets as security for the notes issued to them when such notes are a first and paramount lien on all their assets. The whole includes a part.

The machinery provided for the handling of these note issues seems to have been made unnecessarily cumbersome and complicated by an attempt to embody in the plan the erroneous principle that to the government belongs the exclusive prerogative of issuing the circulating medium. The experience of the world is that it is better for a government to provide the paper circulating medium indirectly through properly organized banks under strict government supervision rather than put the credit of the government at issue with every note placed in circulation. Troublesome times come to every community and to every nation and it is better then to have the credit of the banks called in question than the credit of the government itself.

The proposed hybrid form of Federal Reserve notes — half government and half bank obligations — had better be either the one or the other. As bank notes they would be amply secured without the superfluous government guaranty. Issued by the banks when and as needed they would more readily automatically adjust themselves in volume to the actual commercial needs for them. As obligations of the government, they are likely, as do our present government issues and our government bond-secured national bank notes, to remain too long in circulation, no active redemption of them being deemed necessary. It should not be overlooked that it is the active and constant redemption of a circulating medium that makes it elastic. Expansion without contraction is not elasticity, but inflation. I would very much fear inflation in connection with such an issue as is proposed. The suggestion that the Federal Reserve Banks issue the notes and maintain a 50% reserve against them, being taxed when their reserves fall below that figure, the tax to increase as the reserves diminish, is a good one and worthy of careful consideration.

### Transit Items Handled by Federal Reserve Banks

SECTION 17. Further provides that Federal Reserve Banks must receive on deposit at par and without charge for exchange or collection, checks or drafts drawn on any of its depositors or by any of its depositors on any other depositor, and checks and drafts drawn by any depositor in any other Federal Reserve Bank on the bank last mentioned.

This provision seems to contemplate that each Federal Reserve Bank will collect free of cost for each of its depositing banks checks drawn on all other depositing banks in its district. To carry this out would require quite a large office force, but if it could be satisfactorily accomplished there might be some economy in it.

### Transfers of Funds

It is further provided in SECTION 17 that the Federal Reserve Board shall make regulations governing the transfer of funds at par among Federal Reserve Banks and that it may, at its discretion, exercise the functions of a clearing house for such Federal Reserve Banks and may also require each such bank to exercise clearing house functions for its shareholding banks.

As the transfer of funds from one Federal Reserve Bank to another would inevitably sometimes involve the shipment of funds by express, it is not quite apparent how the Federal Reserve Board could make regulations governing such transfers always at par. Nor is it quite apparent how the Federal Reserve Board located in Washington could exercise clearing house functions for the twelve Federal Reserve Banks, as such functions are at present understood. The banks in each district would even be too widely scattered for the Federal Reserve Bank of the district to exercise for them clearing house functions, except, possibly, in regard to the handling of country checks, commonly known as transit items. Local checks, which are all that most clearing houses now handle, would have to continue to be cleared through local clearing houses. Arrangements might be made, however, to settle clearing house balances by checks on the Federal Reserve Bank of the district.

### National Bank Notes to be Retired and Government Two Per Cent Bonds Refunded

SECTIONS 18, 19 and 20. Provide satisfactorily for the gradual retirement of the present bond-secured national bank notes and the refunding of the 2% government bonds pledged as security for them into 3% bonds payable after twenty years at the rate of 5% per annum for twenty years, at the end of which time every holder of 2% government bonds then outstanding shall receive in exchange 3% bonds payable twenty years from date of issue.

It will be noticed that the 3% bonds the banks are to receive in exchange for the 2% bonds which they may surrender at the rate of 5% per annum of their holdings are payable "*after twenty years*" while the 3% bonds which the holders of the 2% bonds are to get in exchange for them at the expiration of

twenty years are to have a definitely fixed date of payment, viz : "*twenty years from date of issue.*" This looks like an error in the drawing of the bill, as the government's practice is to make such bonds payable after a certain date at its pleasure.

### Bank Reserves

SECTION 21. This section regulates bank reserves. Concisely stated the regulations are as follows:

1. That every national bank shall within sixty days after the establishment of a Federal Reserve Bank in its district deposit with such Federal Reserve Bank 3% of its total demand liabilities and at the end of fourteen months shall increase such deposit to 5%. Such deposit balance may be increased, but *shall at no time fall below the amounts aforesaid.*

### Country Banks

2. National banks, classified as country banks, outside of central reserve and reserve cities, are required to maintain a 15% reserve. Such reserves shall consist of 5% lawful money in their vaults, 5% as above provided for with their district Federal Reserve Bank, and for thirty-six months 5% with their legal reserve agents; after thirty-six months this 5% must consist either of lawful money in their vaults or of balances on deposit with the Federal Reserve Bank of their district; with this proviso, that the Federal Reserve Board may, in its discretion, permit the last mentioned 5% to be on deposit with any bank in a reserve or central reserve city.

### Banks in Reserve Cities

3. Banks in reserve cities from and after the date set by the Secretary of the Treasury for the incorporation of the Federal Reserve Banks in their various districts shall, for a period of twenty-six months, maintain a reserve of 25%; for twelve months thereafter a reserve of 22½%, and permanently thereafter a reserve of 20%. For sixty days from the above named date they shall keep 12½% in lawful money in their vaults, and thereafter 10%. They may keep their additional reserve, above the lawful money required, either with the Federal Reserve Bank or with the reserve agent in the central reserve cities for a period not exceeding thirty-six months, but the balance of 3% and 5% respectively on deposit with the Federal Reserve Bank shall not be diminished.

### Banks in Central Reserve Cities

4. Central reserve city banks for a period of fourteen months shall maintain a reserve *in lawful money* of 25%; thereafter for twelve months 22½%, and after twenty-six months 20%. For a period of sixty days they shall maintain in their own vaults in lawful money 20%, and thereafter 10%. It shall be optional with them to keep their reserve, in addition to the lawful money required in their vaults, either in their own vaults or as a deposit with the Federal Reserve Bank of their district; provided, however, that the 3% and 5% balances with the Federal Reserve Banks shall not be diminished.

I would draw attention to two inconsistencies in these regulations :

1. It is not stated what the banks in the reserve cities will be required to do with their additional reserve above the lawful money they are required to maintain after the thirty-six months period, during which they may keep it either with the Federal Reserve Banks or with a reserve agent in a central reserve city. This is evidently an inadvertent omission.

2. The central reserve city banks for a period of fourteen months are required to maintain *a reserve in lawful money* of 25%, thereafter for twelve months 22½% and after twenty-six months 20%. This must mean a "legal reserve" not "a reserve in lawful money," as the next sentence permits them to immediately reduce their reserve in lawful money to 20% and after sixty days to 10%.

A committee of the Currency Commission of the American Bankers' Association has criticised this section as follows and as their criticism expresses my views I will here quote it:

"The reserve requirements in the bill will, it is believed, bear most hardly upon country banks and seriously curtail their ability to extend accommodations to their customers as compared with the requirements under existing law. It is suggested that no plan to redistribute deposits with a view to eliminating concentration at centers, should overlook the natural flow of commerce between the country and the financial centers which contributes a natural part of the concentration of funds at centers, as distinguished from the artificial or unnatural concentration there. While the bill makes the requirement of reserve in the same percentage as under existing law, it does in effect increase the requirement of actual cash means, since country banks would find it necessary in addition to the reserve specified to carry considerable balances in reserve cities to enable them to transact their customers' business conveniently and in order to maintain a relation that will establish a privilege of borrowing upon collateral such as would not be available for discount with Federal Reserve Banks.

"The same reasons apply measurably to reserve city banks."

To this I would add that in the case of the reserve and central reserve city banks, to the extent that the legal reserve deposits of the banks are withdrawn from them, their loaning power will be proportionately curtailed and the contraction of credits which this would cause might produce a serious situation.

The answer that has been made to this, that they will be able to rediscount with the Federal Reserve Banks, does not cover the case as their necessities might easily be greater than their rediscounting privilege and it would be the reverse of conservative banking and might produce a very bad condition were they to rediscount too freely.

The committee above referred to have recommended that Section Eighteen of the bill be stricken out and the following inserted in lieu of it.

"It shall be the duty of all member banks to maintain reserves as hereinafter stated against all demand deposits which shall include time deposits maturing within forty-five days; to-wit, country banks 15%, reserve city banks, 18%, central reserve city banks 20%.

"In the case of a country bank such reserve shall consist of not less than 5% of lawful money in its vault and not less than 3% with its district Federal Reserve Bank; 7% may consist of balances due from reserve agents approved by the Comptroller of the Currency.

"In the case of a reserve city bank such reserve shall consist of not less than 6% lawful money in its vault and not less than 6% with its district Federal Reserve Bank. Six per cent may consist of balances due from reserve agents approved by the Comptroller of the Currency.

"In the case of a central reserve city bank, such reserve shall consist of not less than 10% lawful money in its vaults and not less than 10% with its district Federal Reserve Bank.

"Provided that when the date is set by the Secretary of the Treasury and officially announced, the deposits of reserve hereinabove required to be placed with Federal Reserve Banks shall be made as follows: One third in not less than sixty days; one third in not less than fourteen months; and one third in not less than twenty-six months after such date."

It is worthy of mention here that the minimum reserve deposits of the national banks in the Federal Reserve Banks, which equal 5% of their deposits, and which, therefore, based on the present aggregate deposits of the national banks, would amount to \$410,000,000, are to be absolutely impounded. "*Such balances may at any time be increased, but shall at no time be allowed to fall below the amounts aforesaid.*" Under such a condition can such balances be considered reserves at all? What are reserves for if not for use in emergencies? They

would be unavailable at any time, or for any purpose, prior to the liquidation of the banks to which they belong.

### Loans on Farm Lands

SECTION 27. Permits national banks located outside of reserve and central reserve cities to make first mortgage loans to the extent of 25% of their capital, or 50% of their time deposits, on farm lands in their own district, for 50% of their value and for not exceeding nine months.

As farm mortgage loans are usually made for a much longer period than nine months, and necessarily so, this privilege will be of little or no advantage to the national banks in competition with state banks and other concerns doing a regular farm loan business.

SECTION 20. Permits national banks having a capital of \$1,000,000 or more under specified conditions and such other conditions as may be prescribed by the Federal Reserve Board to open branches in foreign countries.

This privilege will be of advantage to and will be appreciated by some of the largest banks in the principal financial centers.







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